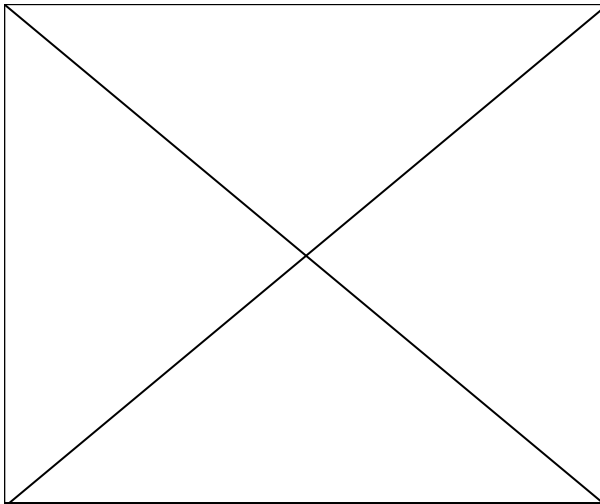


# The New Dell's Daunting New Challenges

**BARRON'S**

**DURING HIS PREVIOUS TURN RUNNING HIS NAMESAKE** computer company, Michael Dell was known as an effusive and brash leader, once even suggesting that Apple should fold its tent. But Dell has become downright coy since returning as CEO about three years ago to rescue his company from an accounting scandal and to repair its broken business model.



Once Dell had steadied the company's performance, some observers wondered whether the suddenly press-shy billionaire wanted to stay on as CEO to tackle the arduous task of turning the vessel around.

"It's fun, actually, [and] it would have been a perfectly bad ending to a great story," Dell tells Barron's at the company's Round Rock, Texas campus, outside Austin. "I'm not that old of a guy. Sam Walton started Wal-Mart when he was 44."

Walton didn't retire as CEO till he was 70, which means Texas-born Dell, 45, could have many years to go.

He may need them. After falling from No. 1 to No. 3 in personal-computer unit market share, Dell ([DELL](#): 13.25, -0.08, -0.60%) confronts tougher competition and narrower

margins that have helped reduce earnings per share to 99 cents for the fiscal year ended January 2010 from \$1.47 for fiscal 2006. Lower-cost rivals **Hewlett-Packard** ([HPQ](#): **45.72, -0.13, -0.28%**) and **Acer** (2353.Taiwan) have leapfrogged Dell. Revenue has sagged to \$53 billion in the latest fiscal year, from \$61 billion in fiscal 2008. And Dell's share price, after gaining almost 40% in the past year, to 16.20, as the prospects for PC sales improved, still is off 62% from its 2004 peak of 42.38.

To address these problems, Michael Dell is taking a tack he long avoided. He is trying to retool a commodity-hardware manufacturer that championed direct sales, mostly in the U.S., and turn it into a full-service, global enterprise-technology concern, replete with high-priced consultants and commission-driven salespeople. Dell is even trying to push its wares through retail outlets and adding smartphones to its product lineup. It isn't just a major change in strategy, but a risky one that requires lots of long-term investment and that diverts Dell from its traditional, simpler position as a pure-play PC and server maker. Just last week, UBS analyst Maynard Um downgraded the shares because he doesn't believe the rising price reflects the conflicts between the PC business and Dell's new initiatives. He thinks the shares are fully priced. Credit Suisse analyst Bill Shope thinks they're overpriced; his target is 12.50, some 23% below recent levels.

"We're doing a lot of things differently from how we did them three to five years ago," acknowledges Dell, who famously launched the company from his University of Texas dorm room, before dropping out. He adds, a bit vaguely, "And I think you will see us do more things."

**DEALMAKING IS ONE OF THOSE THINGS.** The biggest example was last year's pricey \$3.9 billion buyout of Perot Systems. It was a drastic reversal for Dell, whose company epitomized organic growth and who had vowed not to venture into consulting and services, referring to such firms as "body shops." But the Perot deal also helped make Dell the No. 1 information-technology vendor in health care worldwide, based on 2009 revenue. Dell has made 10 acquisitions since his return to the corner office (see table on page 20), and has lured David Johnson, a 27-year **IBM** ([IBM](#): **123.23, -1.29, -1.03%**) deal-making veteran, to continue that mission. "Acquisitions are just another tool in the tool kit," says Johnson, a senior vice president, in his first interview since leaving Big Blue.

Aside from adopting a quieter tone, Dell has been deliberate in directing the company's latest turnaround. (He also steered Dell through an abortive laptop launch). His first objective was fixing PC manufacturing. Dell's innovative build-to-order process and direct shipping, once the envy of global business, had outlived their usefulness. HP and

Acer had lowered their costs by building standardized computer models, and leveraged their scale to snare market share. Dell, which has been shifting its assembly processes overseas and away from its more costly custom-building, has won praise for slashing production costs during a painful recession. Much progress has been made, but there is more work needed to get costs near those of competitors. "We have to," says Dell, who still loves the hardware portion of the business.

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1

2

3

**Next**



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